

MEETING MINUTES
LIGNITE RESEARCH COUNCIL
April 26, 2001
Country Suites, Bismarck, ND

MEMBERS (or their authorized alternates) PRESENT:

John Bluemle, North Dakota Geographical Survey
Linda Butts, North Dakota Department of Economic Development and Finance
John Dwyer, Lignite Research Council
Carlyle Hillstrom, North Dakota Farm Bureau
Stephen Hovey, BNI Coal, Ltd.
Marlowe Johnson, Otter Tail Power Company
Al Lukes, Dakota Gasification Company
Gary L. Nelson, Ironworkers Local # 793
Russ Nelson, Great River Energy
Dean Peterson, The North American Coal Corporation
Chuck Reichert, representing BNI Coal, Ltd. and Minnesota Power
Martin Schock, North Dakota Department of Health
David Sogard, Minnkota Power Cooperative
Susan Wefald, North Dakota Public Service Commission
Bob Wood, MDU Resources Group, Inc.

OTHERS PRESENT:

David Allard, Lignite Energy Council
Jim Deutsch, North Dakota Public Service Commission
Karlene Fine, North Dakota Industrial Commission
Vicki Gilmore, Lignite Energy Council
Bruce Imsdahl, Montana-Dakota Utilities Co.
Carmen Miller, North Dakota Attorney General's Office
Todd Myers, Westmoreland Power (*participated via telephone*)
Clifford Porter, Lignite Research Council
Duane Steen, Montana-Dakota Utilities Co.
Dick Stone, Westmoreland Power (*participated via telephone*)
Steve VanDyke, MDU Resources Group, Inc.
Rich Voss, Lignite Energy Council
Brian Witte, Associated Press

Lignite Research Council (LRC) chairman John Dwyer called the LRC meeting to order on April 26, 2001 at Country Suites, Bismarck, North Dakota.

Financial Summary

Porter said that the financial summary information provided to LRC members is unchanged from the information provided at the March 29, 2001 LRC meeting. His slide presentation showed that on a financial cash basis, there is a Lignite Research Fund balance of \$18,194,647 (out of a budgeted amount of \$22,574,460) available for the 1999-2001 biennium. The balance breaks down as follows: \$114,336 for administration of the Lignite Research, Development and Marketing Program (Program), \$230,000 for lignite marketing feasibility studies, \$1,603,550 for small research projects, and \$16,246,761 for demonstration projects.

Approval of 3-29-01 LRC Minutes

Dwyer asked for a motion to approve the minutes of the March 29, 2001 LRC meeting. Dean Peterson so moved; seconded by Chuck Reichert. Motion carried.

April 19, 2001 North Dakota Industrial Commission Meeting

Karlene Fine handed out a sheet summarizing the action taken April 19, 2001 by the North Dakota Industrial Commission. The Commission adopted the recommendation of the LRC and approved the funding of up to \$10,000,000 for the demonstration project titled "Lignite Vision 21 Power Plant Project" submitted by Great River Energy during Grant Round XL with the conditions as recommended by the Commission's technical advisor (Clifford Porter), and further authorized Karlene Fine (the Commission's executive director) to negotiate and enter into a contract with Great River Energy for the completion of Phases I and II of the project. In addition to the conditions outlined by the technical advisor and recommended by the LRC, the Industrial Commission's executive director should further include in the negotiations: 1) an accelerated completion date for Phases I and II; 2) a reimbursement to the Lignite Research Program for a portion of the Phase I costs if Phase II is not undertaken by Great River Energy; 3) after commercial operation of the project, a return to the Lignite Research Program for a portion of the Phase II funding; and 4) a schedule of disbursements of the Lignite Research Funds over the entire term of the project based on a ratio of industry expenditures.

Fine said that negotiations for the contract between the Commission and Great River Energy are still under way.

David Sogard asked if the LRC approves today's Montana-Dakota Utilities' Grant Round XLI request for \$10,000,000 for its demonstration project, does that leave approximately \$3,500,000 available for Lignite Vision 21 funding through 2009, and does that figure include any of the reimbursements from Great River Energy (see point number 2 in the paragraph above). Dwyer said the reimbursements from Great River Energy will not be figured in the \$3,500,000 in available funds, and that the \$3,500,000 figure is a conservative computation because the Dakota Gasification Company's minimum repayment of \$4,200,000 by 2005 for its anhydrous ammonia project is conservative. If natural gas prices remain similar to what they are currently, it is anticipated the repayment could be approximately \$7,500,000.

Lignite Research, Development and Marketing Program Updates

Porter said that in the lignite marketing feasibility studies area, all Program funding has been used. One project has been completed from 1997-1999 biennium funds. The five new projects from 1999-2001 biennium funds are all Lignite Vision 21-related. Four of the five are completed and one is still active. In the small research projects area, there are 25 projects from the 1999-2001 biennium. Eight of these are completed and 17 are in progress. In the demonstration projects area, Porter pointed out that Dakota Coal Company's "D. F. Schmidt's Rear-Dumping Dragline Bucket" project that the LRC approved in 1997 has been withdrawn, and Dakota Coal Company has returned \$250,000 of the grant award to the demonstration projects funding area.

Porter said the summary sheet showing Program funding data is available on the internet at the North Dakota Industrial Commission's website.

Porter said the source of funds for Lignite Vision 21 funding through 2009 is as follows:

<u>Source of Funds</u>	<u>Amount(s)</u>
Estimated Demonstration Funds ('99-'01 Biennium)	\$10,165,000
Demonstration Funds ('01-'03 Biennium)	\$1,080,000
Minimum repayment from DGC's NH ₃ (anhydrous) project	\$4,200,000
Demonstration Funds ('03-'05 Biennium)	\$1,609,000
Demonstration Funds ('05-'07 Biennium)	\$2,686,000
Demonstration Funds ('07-'09 Biennium)	<u>\$3,769,000</u>
 TOTAL ESTIMATED AVAILABLE FUNDS	 <u>\$23,509,000</u>

Porter said he selected the period of 2001 through 2009 because this is the timeframe across which the Lignite Vision 21 demonstration projects are being projected, with construction occurring during this time.

He said that Great River Energy's application for \$10,000,000 in Lignite Vision 21 funds has already been approved by the Commission; Montana-Dakota Utilities' request for \$10,000,000 and Westmoreland Power Inc.'s request for \$500,000 will be considered at today's meeting. Thus, the total for Lignite Vision 21 awards and applications is \$20,500,000.

LRC-XLI-A: "Lignite Vision 21 Project - Gascoyne, North Dakota"; Submitted by Montana-Dakota Utilities Co.; Project Manager: C. Wayne Fox; Principal Investigator: Bruce Imsdahl; Request for: \$10,000,000; Total Project Cost: \$740,000,000.

Porter said that as presented in Montana-Dakota Utilities' (MDU) grant application for LRC-XLI-A, the \$10,000,000 request is as follows: \$3,000,000 for Phase I over three years, and \$7,000,000 for Phase II over one year, with a total project cost of \$7,400,000 over nine years. He said that the objective of the project is to construct a 500MW lignite-fired power plant at Gascoyne, ND. Phase I would include feasibility and permitting studies; Phase II would include transmission siting and permitting, generation plant and lignite combustion product utilization design, and project management and reporting. The grant application did not request Commission funding for Phase III. Phase III was proposed with two tasks: 1) construction of the generation plant, transmission lines and lignite mine; and 2) project management.

Porter said that the MDU Gascoyne project can provide future energy needs for the region, can expand the use and enhance the development and use of North Dakota lignite, and has the potential for substantial economic development for North Dakota. As technical advisor, Porter's recommendation is to fund the project, with funding guidelines summarized as follows:

For Phases I and II: Phase I plus Phase II funding not to exceed \$2,850,000; approval of scope of work, approval of budget and milestone charts; approval of progress reports; funds must be used only for development and use of North Dakota lignite; minimize duplication of studies; funding not to exceed \$7,150,000 upon receipt of a written commitment from MDU for Phase III construction of a new lignite-fired Gascoyne power plant subject to approval of scope of work, budget, milestone charts and progress reports; commencement of Phase II during the first quarter of 2003; and continuing legislative appropriations for the Program and continuing Commission support for the Lignite Vision 21 Project are required.

Porter said that he encourages MDU and Westmoreland Power, Inc. to jointly develop the Gascoyne site.

The five technical peer reviewers gave the project an average weighted score of 186.2 out of 250 points. Three reviewers recommended the project be funded; two recommended that funding be considered. Porter summarized some of the reviewers' comments as follows: Reviewer 01-M-4: The project has the potential to consume four million tons of lignite annually and bring significant income to the state. Reviewer 01-M-5: Utilization of coal ash is an added attraction. Reviewer 01-M-6: The air quality investigation in this area of the state may be advantageous and the study is very necessary. Reviewer 01-M-7: Using existing technology may lower costs but sacrifice future economic benefits. Reviewer 01-M-8: Air quality is a turnkey decision but the modeling analysis is not a part of the proposal; the proposal did not convey an achievable outcome of new plant construction.

Porter said that MDU has requested the right to maintain confidentiality of portions of the feasibility studies pursuant to North Dakota Century Code 54-17.5-06. He said that potential conflict-of-interest parties for this proposal are MDU Resources Group and Knife River Corporation.

Susan Wefald asked a question concerning the following point listed on the April 19, 2001 Industrial Commission recommendations sheet that Karlene Fine had distributed at the beginning of the meeting: *The state should not fund duplicative studies by approved multiple LV 21 applicants.* Wefald asked that if the LRC chooses to recommend the project be funded, how is the point concerning non-

funding of duplicative studies going to be assured. Porter said that one of the conditions in his full Technical Advisor's recommendation is the same point: *Studies and activities to maximize efficient use of available state and industry funds and avoid duplication. To the extent practical and consistent with timely completion and to the mutual benefit of the parties while protecting each parties confidentiality, environmental, generation and transmission studies should be done in cooperation with other entities. The state should not fund duplicative studies by approved multiple LV 21 applicants.* He said that the scope of work of most of the projects is approved by the Technical Advisor, as are the projects' progress reports.

Sogard asked if duplicative studies mean studies that are looking at the same site, or similar plants. Porter said that as an example, if there is a generation technology that should be evaluated for its application for North Dakota lignite, he would see that as an area where MDU Resources and Great River Energy would cooperate.

As another example, Porter said that if there is an air modeling study that is more specific with regard to the issue at Gascoyne or whatever site is selected, then he would have to look at how such studies would or would not be duplicative. Dwyer said that transmission is another area where the Technical Advisor would make sure there was no duplication in studies of the same system. Wefald asked if there is an approval process before funds are made available for particular studies, or is the applicant given the whole grant. Porter summarized how the grant process works. Generally, based on the signing of the contract and his approval of the scope of work, the first payment is made. Subsequent payments are made as a function of the progress reports that are submitted.

Bruce Imsdahl gave a slide presentation in support of the proposal.

Imsdahl said that MDU and Great River Energy had some phone conversations and discussions concerning working together on studies in the transmission and possibly marketing areas. He said that on April 25, 2001, MDU and Westmoreland Power, Inc. entered into a letter of intent for a joint venture with this project. Imsdahl read a paragraph from the letter of intent: *"Upon execution of this letter, Westmoreland and MDU will notify the Lignite Research Council and the North Dakota Industrial Commission that Westmoreland intends to join MDU's grant application. Upon execution of a complete joint venture agreement, the application will then be titled MDU/Westmoreland Application. The parties will jointly ask the Industrial Commission to withhold any action on Westmoreland's application until a joint venture agreement has been executed. Once the project agreement is executed, Westmoreland will withdraw its grant application to the Industrial Commission."*

Dwyer said that once the letter is forwarded to the Commission, the letter is a matter of public record. Imsdahl said MDU could give it to the LRC as part of the grant application.

Richard (Dick) Stone said that he confirms for Westmoreland that what Bruce Imsdahl said is accurate. Westmoreland has entered into a letter of intent with MDU and plans to join with MDU on the execution of the grant application in the event it is approved. Stone said that he is vice president of power development for Westmoreland Coal Company and president of Westmoreland Power, Inc. Todd Myers said that he and Stone have been involved with the closing of the negotiations for the joint venture. Dwyer said that MDU's and Westmoreland's applications are not competing applications. The two companies have worked out a letter of intent to cooperate fully, and Westmoreland will withdraw its separate application.

Linda Butts asked if the contract for the joint venture will include language concerning reimbursement to the state. Imsdahl said that there have been preliminary discussions about reimbursement. Dwyer said that conditions for reimbursement requests will be similar for all the Lignite Vision 21 grant applicants' contracts. Possible contract conditions have not yet been worked out and are still under way.

Butts asked if the project's timeline could be expedited. Imsdahl said that some things can be expedited; by law, some cannot.

LRC-XLI-B: “Westmoreland Gascoyne”; Submitted by Westmoreland Power, Inc.; Project Manager: Richard C. Stone; Request for: \$500,000 (Reserve for \$10,000,000); Total Project Cost: \$700,000,000.

Stone said that MDU and Westmoreland request that the LRC withhold any action on Westmoreland’s grant application pending Westmoreland’s negotiations of a joint venture agreement for the MDU grant application. To the extent that Westmoreland is successful in negotiating that agreement, it would be Westmoreland’s intent that it would withdraw its grant application to the Industrial Commission. Bob Wood asked if it would be appropriate to make a motion that the Westmoreland grant application be tabled until the July 25, 2001 LRC meeting. Dwyer said that would be appropriate. Wood moved that Westmoreland’s grant application be tabled until the July 25, 2001 LRC meeting; seconded by Dean Peterson. Motion carried.

Ballots

As ballots were passed out for LRC members to vote concerning MDU’s grant application, Dwyer explained that the ballot language includes the Technical Advisor’s detailed guidelines (conditions) for recommending grant application approval. He said that the guidelines are similar to the conditions that the Industrial Commission adopted on April 19, 2001 in its motion to approve funding for Great River Energy’s grant application.

Sogard asked whether or not the reimbursements to the state will be similar for both Great River Energy and MDU. Dwyer said that each grant application is separate, but the Commission is treating both applicants equally and fairly, and that the terms, except for certain completion date requirements, would be similar.

Dwyer said that concerns expressed by Susan Wefald, Linda Butts and Senator Layton Freborg at the March 29, 2001 LRC meeting are being addressed and negotiated by the Commission in the contract negotiations that are under way with Great River Energy.

Grant Application Deadline Dates; Upcoming LRC Meetings

Dwyer announced that the remaining grant application deadline dates for 2001 are May 1 and September 1. In addition, the North Dakota Industrial Commission added monthly grant application deadlines from December 1, 2000 through December 1, 2001, to facilitate Lignite Vision 21 Project grant applications.

Upcoming LRC meetings will be at 1:30 p.m. July 25, 2001 at Doublewood Inn, Bismarck, and at 11:00 a.m. October 30, 2001 at Radisson Inn, Bismarck.

Ballot results: LRC-XLI-A: “Lignite Vision 21 Project - Gascoyne, North Dakota”

Dwyer announced that the LRC cast a unanimous (15-0) ballot to recommend that the Industrial Commission approve funding of MDU’s proposal (“Lignite Vision 21 Project - Gascoyne, North Dakota”). The LRC’s recommendation will be considered by the Industrial Commission at its May 2, 2001 meeting.

North Dakota Legislative Session

Dwyer said that the Program appropriation bill is out of conference committee, passed both the House and Senate, and is awaiting the Governor’s signature.

Adjournment

There being no further business, Dwyer asked for a motion to adjourn the meeting. Sogard so moved; seconded by Chuck Reichert. Motion carried.

